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PART 8

BACKGROUND MATERIAL ON
EXCISE TAXES

PREPARED BY THE
STAFFS OF THE TREASURY AND THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

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Alcoholic beverages and tobacco have been the mainstays of the excise system for almost a century. Moreover, prior to the introduction of the income tax in 1913, taxes on these commodities were the principal sources of internal revenue.

A. INTERWAR PERIOD

Wartime fiscal needs have always resulted in an extension of the excise system. Extensive use was made of excises in World War I. As revenue requirements declined during the 1920's, most of the wartime excises were repealed. By 1928 most of the vestiges of the wartime system had been removed. In the fiscal year 1930, only 15.6 percent of total tax revenues were derived from excises (table 1).

A return to more extensive use of excises occurred with the Revenue Act of 1932. As a result of this extension of excise taxes and the drastic decline in income tax revenues resulting from depression declines in income, the share of total tax revenue obtained from excises rose to 45 percent by fiscal year 1933.

With the rising level of national income excise tax revenues more than doubled between 1933 and 1939, although some of the excises imposed in 1932 had been repealed in the meantime. Others, while originally imposed on a temporary basis, were continued from year to year and finally made permanent. During this period the yield of individual and corporate income taxes increased even faster as the result of higher tax rates and more prosperous economic conditions. By 1939 the share of total tax collections accounted for by excises had dropped to 32 percent.

B. WORLD WAR II PERIOD

In response to armament needs, the rates of most excises in force before the war were increased in the 1940's, some several times. A large number of new excises also were imposed. Although elimination of the civilian output of durable goods reduced yields of a few excises during the war, excise tax yields reached \$5.9 billion by fiscal year 1945, or more than three times the 1939 level. However, because of increases in individual and corporate income tax rates and large increases in national income, income tax receipts increased many times faster than excise tax receipts during this period and by 1944 excises produced only 11 percent of the Federal tax revenue.

¹ Internal revenue taxes on collection basis and customs on daily Treasury statement basis.
² April revisions of the 1952 budget estimates by the Treasury Department.

NOTE.—Figures for 1935 and subsequent years exclude trust fund collections.

C. POSTWAR PERIOD

The downward trend in the relative importance of excise tax yield was reversed after the war as a result of a combination of factors. Individual and corporate tax rates were reduced and total tax revenue thus declined even though national income increased. Practically no change was made in the excise system. Consequently, as expenditures for consumers' goods increased, excise revenues also rose. By the fiscal year 1950, excise revenues represented 19 percent of total revenues and were \$1.6 billion higher than in the fiscal year 1945, even though total tax revenues were down \$4.8 billion.

A limited reduction in excise taxes was approved by the Committee on Ways and Means in 1950, and the Revenue Act of 1950 as passed by the House of Representatives provided for a number of excise tax reductions. However, as a result of the military action in Korea and the increased need for revenue, the proposed reductions were eliminated and new excises were imposed on two items, television sets and deep-freeze units.

As a result of income tax increases in the Revenue Act of 1950 and the Excess Profits Act of 1950, the proportion of total tax revenue accounted for by excises is again expected to decline. For fiscal 1952 the proportion is estimated at 13 percent.

II. RELATIVE IMPORTANCE OF DIFFERENT EXCISE TAXES

A. PRIOR TO WORLD WAR II

During the thirties the excise tax structure was expanded through the addition of many new excises. These included taxes on candy, soft drinks, and checks, which were repealed within 5 or 6 years after their adoption. The taxes on gasoline, jewelry, furs, refrigerators and some other items, however, continue in effect.

Despite this extension in the scope of excise taxation, the liquor and tobacco taxes remained the most important sources of excise revenues. In combination, they never produced less than 53 percent of excise revenues during the thirties and in 1939 they yielded 67 per

cent of total revenues (table 2). The balance of the excise tax revenues was fairly widely distributed. In 1939 the only other items of substantial importance were gasoline, which produced 12 percent of the excise tax revenue and the various automobile taxes (passenger autos and motorcycles, trucks, parts and accessories, and tires and tubes) which accounted for 5 percent.

TABLE 2.—*Revenues from liquor and tobacco taxes in relation to total excise tax revenues, for selected fiscal years, 1930-52*

[Dollar amounts in millions]

Year	Liquor and tobacco taxes ¹			Revenues from liquor and tobacco taxes as a percent of total excise revenue	Year	Liquor and tobacco taxes ¹			Revenues from liquor and tobacco taxes as a percent of total excise revenue
	Liquor	Tobacco	Total			Liquor	Tobacco	Total	
1930.....	\$12	\$150	\$462	81.8	1945.....	\$2,310	\$932	\$3,242	54.5
1933.....	43	403	446	53.2	1946.....	2,526	1,166	3,692	55.2
1936.....	505	501	1,006	65.7	1947.....	2,475	1,238	3,713	51.0
1937.....	594	552	1,146	65.6	1948.....	2,255	1,300	3,556	48.0
1938.....	568	568	1,135	66.2	1949.....	2,211	1,322	3,532	46.6
1939.....	588	580	1,167	66.7	1950.....	2,219	1,328	3,548	46.7
1940.....	624	608	1,232	66.0	1951 esti- mate ²	2,659	1,405	4,064	46.2
1941.....	820	698	1,518	63.7	1952 esti- mate ²	2,376	1,445	3,821	45.6
1942.....	1,048	781	1,829	58.6					
1943.....	1,423	924	2,347	61.9					
1944.....	1,618	988	2,607	58.4					

¹ Figures for 1935 and subsequent years exclude trust fund collections.

² April revision of the 1952 budget estimates by the Treasury Department.

NOTE.—Figures are rounded and will not necessarily add to totals.

B. DURING WORLD WAR II

As shown in table 3, the rates of the prewar excises were increased and new excises were adopted during World War II. The taxes on liquor, cigarettes, and gasoline were rapidly geared to wartime needs. The tax on distilled spirits was raised from \$2.25 to \$9 per proof-gallon, beer from \$5 to \$8 per barrel, and gasoline from 1 to 1½ cents. The cigarette tax rose from \$3 to \$3.50 per thousand.

The manufacturers' taxes on durable goods such as automobiles, radios, and refrigerators were raised in order to increase revenue and to restrain the diversion of critical materials and labor from more essential defense needs. In addition, a number of new manufacturers' excises were imposed on durable goods, and before the end of the war, business and store machines, electric, gas, and oil appliances, and sporting goods were taxed at 10 percent of manufacturers' prices.

Substantial taxes were imposed on the transportation of persons and property and on local and long-distance communication services. The tax on admissions was increased from 10 to 20 percent, and the scope of the tax was enlarged by the elimination of exemptions previously granted.

Fur, jewelry, toilet preparations, and later, luggage were subjected to taxes at the retail level, eventually reaching a 20-percent rate. These retail excises were heavy compared to the manufacturers' taxes, since their rates not only were generally higher but also applied to the retail prices which of course, are higher than the manufacturers' prices.

TABLE 3.—*Rates of principal excise taxes, 1939-51*

Item	Rates in effect Dec. 31, 1939	Revenue Act of 1940	Revenue Act of 1941	Revenue Act of 1942	Revenue Act of 1943 and subsequent acts ¹
Admissions	1 cent per 10 cents or fraction if 41 cents or more.	1 cent per 10 cents or fraction if 21 cents or more.	1 cent per 10 cents or fraction.	No change.	1 cent per 5 cents or major fraction.
Alcoholic beverages:					
Distilled spirits:	\$2 25 per proof gallon.	\$3 per proof gallon.	\$4 per proof gallon.	\$6 per proof gallon.	\$9 per proof gallon.
Rectification.	30 cents per proof gallon.	No change.	No change.	No change.	No change.
Fermented malt liquor.	\$5 per barrel.	\$6 per barrel.	No change.	\$7 per barrel.	\$8 per barrel.
Still wines.	5 cents, 10 cents, 20 cents per gallon.	6 cents, 18 cents, 30 cents per gallon.	8 cents, 30 cents, 65 cents per gallon.	10 cents, 40 cents, \$1 per gallon.	15 cents, 60 cents, \$2 per gallon.
Sparkling wines.	2½ cents per ½ pint.	3 cents per ½ pint.	7 cents per ½ pint.	10 cents per ½ pint.	15 cents per ½ pint.
Automobiles:					
Passenger automobiles.	3 percent of manufacturer's price.	3½ percent of manufacturer's price.	7 percent of manufacturer's price.	No change.	No change.
Trucks and buses.	2 percent of manufacturer's price.	2½ percent of manufacturer's price.	5 percent of manufacturer's price.	No change.	No change.
Parts and accessories.	2 percent of manufacturer's price.	2½ percent of manufacturer's price.	5 percent of manufacturer's price.	No change.	No change.
Use of automobiles.			\$5 per year.	No change.	Repealed. ²
Billiard and bowling.			\$10 per year per unit.	No change.	\$20 per year per unit.
Business and store machines.			10 percent of manufacturer's price.	No change.	No change.
Cabarets.	1½ cents per 10 cents or fraction on 20 percent of charge.	2 cents per 10 cents or fraction on 20 percent of charge.	5 percent of total charge.	No change.	20 percent of total charge. ³
Coin-operated devices ⁴			\$10 and \$50 per year per machine.	\$10 and \$100 per year per machine.	\$10 and \$150 per year per machine. ⁵
Documentary stamps:					
Deeds of conveyance.	50 cents per \$500 or fraction if value is over \$100.	55 cents per \$500 or fraction if value is over \$100.	No change.	No change.	No change.
Issues of stocks and bonds ⁶ .	10 cents per \$100.	11 cents per \$100.	No change.	No change.	No change.
Transfers of stocks and bonds ⁷ .	4 cents per \$100.	5 cents per \$100.	No change.	No change.	No change.
Dues and initiation fees.	10 percent of amount paid.	11 percent of amount paid.	10 percent of manufacturer's price.	No change.	20 percent of amount paid.
Electric, gas, and oil appliances.			10 percent of manufacturer's price.	No change.	No change. ⁸
Electric light bulbs.			5 percent of manufacturer's price.	No change.	20 percent of manufacturer's price.
Electric signs.			10 percent of manufacturer's price.	Repealed.	
Electrical energy.	3 percent of sale price.	3½ percent of sale price.	No change.	No change.	No change.
Firearms, shells, cartridges.	10 percent of manufacturer's price.	11 percent of manufacturer's price.	10 percent of manufacturer's price.	No change.	No change.
Fur articles.	1 cent per gallon.	1½ cents per gallon.	10 percent of retail price.	No change.	20 percent of retail price. ⁹
Gasoline.			No change.	No change.	No change.
Jewelry.			10 percent of retail price.	No change.	20 percent of retail price. ¹⁰

Leases of safe deposit boxes.....	10 percent of amount collected.	11 percent of amount collected.	20 percent of amount collected.	No change.	No change.
Lubricating oils.....	4 cents per gallon.	4½ cents per gallon.	10 percent of manufacturer's price.	6 cents per gallon.	No change.
Luggage.....			2 cents per M.	No change.	20 percent of retail price. ¹¹
Matches.....			10 percent of manufacturer's price.	No change.	No change.
Musical instruments.....			10 percent of manufacturer's price.	Repealed.	No change.
Optical equipment.....			10 percent of manufacturer's price.	No change.	No change.
Photographs and phonograph records.....			10 percent of manufacturer's price.	25 percent of manufacturer's price.	No change.
Photographic apparatus.....			10 percent of manufacturer's price.	15 percent of manufacturer's price.	No change.
Photographic film.....			10 percent of manufacturer's price.	No change.	No change.
Pistols and revolvers.....			No change.	No change.	No change.
Playing cards.....			13 cents per package.	No change.	No change.
Radios.....			10 percent of manufacturer's price.	No change.	No change. ¹²
Refrigerating equipment: Household refrigerators.....			10 percent of manufacturer's price.	No change.	No change. ¹³
Commercial refrigerating equipment.....			10 percent of manufacturer's price.	Repealed.	No change.
Air conditioning units.....			10 percent of manufacturer's price.	No change.	No change.
Rubber articles.....			10 percent of manufacturer's price.	Repealed.	No change.
Sporting goods.....			10 percent of manufacturer's price.	No change.	No change.
Sugar.....			No change.	No change.	No change.
Telephone and telegraph: Domestic telegraph, cable and radio; leased wires.....			10 percent of amount charged.	15 percent of amount charged.	25 percent of amount charged.
International telegraph, cable and radio.....			10 percent of amount charged. ¹⁴	No change.	No change.
Toll telephone.....			5 cents per 50 cents or fraction thereof if over 24 cents.	20 percent if charge is over 24 cents.	25 percent if charge is over 24 cents.
Local telephone.....			6 percent of amount charged.	10 percent of amount charged.	15 percent of amount charged.
Wire and equipment service.....			No change.	No change.	8 percent of amount charged.
Tires.....			2½ cents per pound.	No change.	No change.
Tubes.....			4½ cents per pound.	No change.	No change.

See footnotes at end of table, p. 6.

TABLE 3.—*Rates of principal excise taxes, 1939-51—Continued*

Item	Rates in effect Dec. 31, 1939	Revenue Act of 1940	Revenue Act of 1941	Revenue Act of 1942	Revenue Act of 1943 and subsequent acts ¹
Tobacco:					
Cigarettes (small).....	\$3 per M.....	\$3.25 per M.....	No change.....	\$3.50 per M.....	No change.
Cigars (large).....	\$2-\$13.50 per M.....	No change.....	No change.....	\$2.50-\$20 per M.....	No change.
Tobacco and snuff.....	18 cents per pound.....	No change.....	No change.....	No change.....	No change.
Toilet preparations.....	10 percent of manufacturers' price.	11 percent of manufacturers' price.	10 percent of retail price.....	No change.....	20 percent of retail price.
Transportation:					
Persons.....			5 percent of amount paid.....	10 percent of amount paid.....	15 percent of amount paid. ¹⁵
Property.....				3 percent of amount paid (coal 4 cents per short ton).	No change.
Transportation of oil by pipeline.....	4 percent of amount paid.....	4½ percent of amount paid.....	No change.....	No change.....	No change.
Washing machines (commercial).....			10 percent of manufacturers' price.....	Repealed.....	

¹ Rates effective Jan. 1, 1951. Except where otherwise specified, these rates were imposed by the Revenue Act of 1943.

² Repealed by the Revenue Act of 1945.

³ Rate raised to 30 percent by the Revenue Act of 1943 and reduced to 20 percent by the Public Debt Act of 1944.

⁴ Lower rate for amusement devices; higher rate for gambling devices.

⁵ Tax on gaming machines increased from \$100 to \$150 by the Revenue Act of 1950.

⁶ For stock without par or face value (a) if actual value is less than \$100, 2 cents per \$20 or fraction in 1939 and 3 cents in 1940; (b) if actual value is more than \$100, 10 cents per \$100 or fraction in 1939 and 11 cents in 1940.

⁷ For stock without par or face value 4 cents per share in 1939 and 5 cents in 1940. If selling price is \$20 or over, whether with or without par or face value rate was 5 cents in 1939 and 6 cents in 1940.

⁸ Vacuum cleaners exempted.

⁹ The Revenue Act of 1947 provided that articles made of fur are taxable only if the value of the fur is more than 3 times the value of the next most valuable component.

¹⁰ Watches retailing for not more than \$65 and alarm clocks retailing for not more than \$5 taxed at 10 percent. Silver-plated flatware exempted.

¹¹ Handbags, wallets, etc., added to tax base.

¹² Tax extended to television sets by the Revenue Act of 1950.

¹³ Tax extended to household units for the quick freezing or frozen storage of foods by the Revenue Act of 1950.

¹⁴ 10 cents per message for cable and radio messages.

¹⁵ The Excise Tax Act of 1947 exempted payments for transportation, any part of which is outside the northern portion of the Western Hemisphere, except with respect to any part of such transportation which is from any port or station within the United States, Canada, or Mexico to any other port or station within the United States, Canada, or Mexico.

C. THE POSTWAR PERIOD

As shown in table 4, the liquor and tobacco taxes continued to dominate the excise tax structure in the postwar period. For the fiscal year 1951, it is estimated that these two taxes alone will account for almost one-half of all excise tax revenue.

TABLE 4.—Number of excise taxes and estimated revenue by size of yield, fiscal year 1951

Size of yield	Estimated revenues ¹	Percent of total	Size of yield	Estimated revenues ¹	Percent of total
	<i>Millions</i>			<i>Millions</i>	
Over \$1 billion.....	\$3, 170	36.1	\$100-\$300 million.....	\$1, 705	19.4
Distilled spirits.....	1, 850	21.0	Local telephone service.....	300	3.4
Cigarettes.....	1, 320	15.0	Transportation of persons.....	225	2.6
\$500 million to \$1 billion.....	1, 887	21.5	Jewelry.....	209	2.4
Fermented malt liquor.....	667	7.6	Tires and inner tubes.....	185	2.1
Passenger autos.....	640	7.3	Radio, television, phonographs, phonograph records, and musical instruments.....	125	1.4
Gasoline.....	550	6.6	Auto trucks.....	122	1.4
\$300-\$500 million.....	1, 095	12.5	Electric, gas, and oil appliances.....	115	1.3
Transportation of property.....	380	4.3	Parts and accessories for autos.....	112	1.3
Long-distance telephone.....	360	4.1	Toilet preparations.....	109	1.2
Admissions exclusive of cabarets.....	355	4.0	Lubricating oils.....	103	1.2
			Refrigerators.....	100	1.1
			Under \$100 million.....	934	10.6
			Total.....	8, 791	100.0

¹ April revisions of the 1952 budget estimates by the Treasury Department.

NOTE.—Percentages are rounded and will not necessarily add to totals.

Largely as a result of the record output of durable goods in the post-war years, collections from the manufacturers' excises are considerably higher now than during the last war, producing about 16 percent of total excise tax revenue. The tax on passenger automobiles, for instance, now yields about \$640 million, compared with only negligible amounts during the war. Other important sources of excise tax revenue at the present time are the taxes on gasoline, the excises on transportation and communications, the admissions taxes, and the retail excises on jewelry, fur, toilet preparations, and luggage.

III. SALES AND EXCISE TAXES IN THE CANADIAN TAX STRUCTURE

Prior to World War II sales and excise taxes were the principal source of Canadian Dominion revenue. During World War II the income tax grew in importance until the personal and corporate levies combined yielded about 60 percent of total revenue. Sales taxes and excises, however, remained important revenue sources. Both income taxes and excises were cut substantially after the war but the latter increased somewhat in relative importance (table 5). In recent years, the Provinces have also made greater use of sales taxes.

In the Dominion tax structure, the major commodity taxes include:

(1) *A general manufacturers' sales tax* on all manufactured products with the exception of food, fuel, building materials, and a substantial

portion of machinery used in agriculture, mining, and manufacturing. The rate has been 8 percent since 1936. As a result of the budget proposals of April 10, 1951, the rate was increased to 10 percent, effective immediately. The tax in recent years has yielded about \$400 million annually, or about one-sixth of total revenue. The recent increase is expected to yield \$105 million of additional revenue in the current fiscal year and \$125 million in a full year.

(2) *Excises upon liquor and tobacco.*—In recent years, these taxes were producing about \$200 million a year, or about 8 percent of total revenue. The 1951 budget made no changes in the present taxes on alcoholic beverages, but increased the tax on cigarettes from \$10 per thousand to \$11.50 per thousand, and the tax on a pound of manufactured tobacco by 48 cents, with a proportionate increase in the tax on raw leaf tobacco. It is estimated that the increase in the cigarette tax will yield \$21 million in fiscal year 1951 and \$26 million in a full year.

(3) *Miscellaneous excises.*—A rate of 15 percent (10 percent prior to September 1950) has been applied to a wide range of manufactured goods, including automobiles, radios, household electrical equipment, jewelry, cosmetics, and luggage. Under the new tax rates this is increased to 25 percent. In addition, a tax of 15 percent was imposed on mechanical refrigerators, washing machines and stoves. A 30 percent tax formerly applied to candy and soft drinks but has this year been reduced to 15 percent. All of these excises are levied upon the manufacturer, and apply in addition to the manufacturers' sales tax. These taxes are now yielding almost \$300 million a year, or over 10 percent of the total. It is estimated that the increase from 15 percent to 25 percent in existing taxes after taking account of the reduction in the tax on candy will yield about \$50 million annually.

The combined total yield of the sales and excise taxes was about \$800 million in 1950, or about a third of current revenue. The corporate income tax yields about 25 percent and the personal income tax almost 30 percent of the total. Personal income-tax exemptions are substantially higher than in the United States, and rates are lower, except in the case of married couples in the middle and higher income brackets.

In the period between 1946 and 1949, a series of reductions were made in excise taxes and in the personal income tax, but the relative contribution of sales and excise taxes to the total revenue increased. In 1950, when tax increases were enacted to meet increased defense expenditures, the personal income tax was left unchanged, as was the manufacturers' sales tax, but excise tax rates were raised sharply and additional commodities were subjected to tax.

The Canadian Provinces were denied the right to levy indirect taxes by provision of the British North America Act—the Constitution of the Dominion. Over the years, however, the Provinces have developed a technique for imposing such taxes by levying them directly upon the consumer, and collecting them from the vendor. The Provinces make extensive use of excises, including those on tobacco, amusements, and gasoline. In recent years the Provinces have turned to the retail sales tax field; five now employ such taxes, at relatively moderate rates.

TABLE 5.—Canada: Amount and percentage distribution of Dominion tax revenues (excluding social-security taxes), fiscal years ending Mar. 31, 1940-51

AMOUNT (IN MILLIONS OF CANADIAN DOLLARS)

Source of revenue	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950, estimated	1951, estimated
Individual income taxes ¹	57	117	324	562	840	796	720	725	696	806	657	714
Corporation income and profits taxes	78	156	321	803	780	742	712	657	591	537	584	810
Succession duties	—	—	7	13	15	17	21	24	31	26	29	34
Excises ²	90	193	327	395	476	486	471	477	465	463	379	461
Sales tax ²	137	180	236	233	305	209	212	298	372	377	404	459
Miscellaneous taxes	2	3	3	12	8	8	9	10	4	4	4	5
Customs	104	131	142	119	168	115	129	237	293	223	229	263
Total, excluding social-security taxes	468	778	1,361	2,137	2,592	2,374	2,275	2,458	2,452	2,436	2,286	2,780

PERCENTAGE DISTRIBUTION

Individual income taxes ¹	12.2	15.0	23.8	26.3	32.4	33.5	31.6	29.5	28.4	33.1	28.7	25.7
Corporation income and profits taxes	16.7	20.1	23.6	37.6	30.1	31.3	31.3	27.9	24.1	22.0	25.5	29.1
Succession duties	—	—	.5	.6	.6	.7	.9	1.0	1.3	1.1	1.3	1.2
Excises ²	19.2	24.8	24.0	18.5	18.4	20.5	20.7	19.4	19.0	19.0	16.6	16.6
Sales tax ²	29.3	23.1	17.3	10.9	11.8	8.8	9.3	12.1	15.2	15.5	17.7	16.5
Miscellaneous taxes	.4	.4	.2	.6	.3	.3	.4	.4	.2	.2	.2	.2
Customs	22.2	16.8	10.4	5.6	6.5	4.8	5.7	9.6	11.9	9.2	10.0	10.7
Total, excluding social securities taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.6	100.0	100.0	100.0	100.0

¹ Includes tax on interest and dividends.

² Taxes net of refunds.

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: The Canada Year Book, and budget speeches by the Minister of Finance.

IV. SALES AND EXCISE TAXES IN GREAT BRITAIN

The British excise tax structure, in effect, consists of two parts: (1) The selective excises and (2) the "purchase tax" introduced in 1941. In combination, these taxes produced 19 percent of total receipts from taxes for the fiscal year 1950 and are estimated to produce 19.5 percent of total tax receipts for 1951. The purchase tax yield in 1950 was 292 million pounds, and the yield of the selective excises was 414 million pounds, of which the excises on tobacco and beer represented 73.2 percent. The yields of the major sources of revenue in Great Britain in the period 1940 to 1951 are shown in table 6.

The rates of the British selective excises are in general substantially higher than those in the United States. Several increases, effective April 11, 1951, were included in the budget for 1952. The most important of these is a 25 percent increase in the gasoline tax. Some amusement taxes were also increased.

The British purchase tax, levied at the wholesale level, was originally adopted late in 1940 as a means of securing additional revenue and checking consumer spending. As amended by the recent budget the purchase tax applies to a wide list of commodities but exempts certain basic necessities like food, utility clothing and utility furniture. Also exempt are items like liquor and tobacco which are subject to heavy excise taxes. There are now three rates of tax: 100 percent of wholesale price, 66 $\frac{2}{3}$ percent and 33 $\frac{1}{3}$ percent.

TABLE 6.—United Kingdom: Amount and percentage distribution of national tax revenues (excluding social security taxes), fiscal years ending Mar. 31, 1940-51

AMOUNT (IN MILLIONS OF POUNDS)

Source of revenue	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951 estimated
Individual income tax ¹ -----	400	600	845	1,082	1,260	1,390	1,430	1,232	1,281	1,545	1,573	1,512
Corporation excess profits tax and national defense contribution-----	27	96	269	378	500	510	466	357	289	279	297	270
Estate duties-----	78	81	91	93	100	111	120	148	172	177	190	195
Purchase tax-----	-----	-----	99	111	92	98	118	181	246	291	292	303
Excises-----	138	224	227	315	390	399	423	383	384	443	414	410
Miscellaneous taxes-----	53	53	53	45	46	47	69	89	106	110	108	107
Customs-----	262	305	378	460	561	579	570	621	791	823	813	871
Total, excluding social-security taxes-----	1,017	1,359	1,962	2,483	2,948	3,135	3,197	3,010	3,269	3,668	3,687	3,698

PERCENTAGE DISTRIBUTION

Individual income tax ¹ -----	45.2	44.2	43.1	43.6	42.7	44.3	44.7	40.9	39.2	42.1	42.7	41.2
Corporation excess-profits tax and national defense contribution-----	2.7	7.1	13.7	15.2	17.0	16.3	14.6	11.9	8.8	7.6	8.1	7.4
Estate duties-----	7.7	6.0	4.6	3.7	3.4	3.5	3.8	4.9	5.3	4.8	5.2	5.3
Purchase tax-----	-----	-----	5.0	4.5	3.1	3.1	3.7	6.0	7.5	7.9	7.9	8.3
Excises-----	13.5	16.5	11.6	12.7	13.2	12.7	13.2	12.7	11.7	12.1	11.2	11.2
Miscellaneous taxes-----	5.2	3.9	2.7	1.8	1.6	1.5	2.2	3.0	3.2	3.0	2.9	2.9
Customs-----	25.8	22.4	19.3	18.5	19.0	18.5	17.8	20.6	24.2	22.4	22.1	23.7
Total, excluding social security taxes-----	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹ Includes income tax paid by corporations which is treated as a withholding tax and credited to stockholders when dividends are distributed.

NOTE.— Due to rounding figures will not necessarily add to totals.

Source: Financial statements.

Table 7 shows the items subject to the various rates under the purchase tax.

In the postwar years, revenue from the purchase tax increased as a consequence of stepped-up production of taxable goods. For the fiscal year ended March 31, 1951, the yield of the tax is estimated at 303,000,000 pounds or 8.3 percent of total British tax revenue (table 8).

In fiscal 1950, the largest single item in the purchase-tax base was nonutility apparel which accounted for 58.5 million pounds or 20 percent of the total (table 9). Passenger vehicles and cycles were second with 28,000,000 pounds or almost 10 percent, and stationery and office requisites third, with about 24,000,000 pounds or 8 percent. Other important items were nonutility tissues, fabrics, and furnishings; toilet preparations and perfumes; floor coverings; hardware; and nonutility furniture.

To facilitate the collection and administration of the purchase tax, wholesale merchants and manufacturers are required to register if their turn-over in taxable goods exceeds 500 pounds annually. Only sales by a registered to a nonregistered firm are taxable. Sales from one registered firm to another are not taxable because they do not constitute a sale by a wholesaler to a retailer, but rather are in the nature of sales by one wholesaler to another.

TABLE 7.—*Rates of tax applicable under the British purchase tax*

1. EXEMPT ARTICLES

Food	Household brooms and brushes
Tobacco	Essential drugs
Liquor	Sanitary ware
Most children's garments	Office machinery
Utility clothing	Trolley vehicles and busses
Domestic textiles	Most industrial material
Utility furniture	
Major domestic cooking and heating appliances	

2. ARTICLES TAXED AT 33½ PERCENT

Most nonutility garments and footwear	Nonessential drugs
Floor coverings, except rugs	Stationery and office requisites except machinery
Domestic light fittings	Bicycles
Wallpaper	Hardware not specifically exempt
Domestic cutlery	
Toys and sport games	

3. ARTICLES TAXED AT 66½ PERCENT

Passenger cars	Tricycles
Musical instruments	Garden furniture
Photographic cameras and film	Nonleather trunks, luggage, and purses
Arts and crafts ¹	Electrical and gas appliances
Radios and television sets	

4. ARTICLES TAXED AT 100 PERCENT

Articles made of furs and skin	Clocks and watches of precious metal
Mirrors	Jewelry
Cut glassware	Perfumes and cosmetics
Electric space heaters	Leather trunks, luggage, and purses

¹ Some arts and crafts taxed at 100 percent.

Source: British Treasury.

TABLE 8.—*Revenue from the British purchase tax in relation to total British taxes for fiscal years ending Mar. 31, 1940-51*[In millions of pounds]¹

	Purchase tax	All taxes ¹	Percent collected from purchase tax		Purchase tax	All taxes ¹	Percent collected from purchase tax
Fiscal year—				Fiscal year—Con.			
1942.....	99	1,962	5.0	1947.....	181	3,010	6.0
1943.....	111	2,483	4.5	1948.....	246	3,269	7.5
1944.....	92	2,948	3.1	1949.....	291	3,668	7.9
1945.....	98	3,135	3.1	1950.....	292	3,687	7.9
1946.....	118	3,197	3.7	1951 (estimated).....	303	3,668	8.3

¹ Excludes collections from social security taxes.

Source: British Statement of Finances.

TABLE 9.—*Revenue from the British purchase tax, by taxable articles, for fiscal year ended March 31, 1950*

(Millions of pounds)

Article	Revenue	Percent of total	Article	Revenue	Percent of total
Nonutility apparel.....	58.5	20.0	Drugs and medicines.....	9.6	3.3
Passenger vehicles, including cycles.....	28.2	9.6	Wireless sets and batteries.....	9.1	3.1
Stationery and office requisites.....	23.6	8.1	Nonutility domestic textile articles.....	9.0	3.1
Nonutility tissues, fabrics, plastic sheetings, and fur skins.....	20.8	7.1	Trunks and bags.....	8.8	3.0
Toilet preparations, perfumes.....	18.3	6.3	Haberdashery.....	8.0	2.7
Floor coverings.....	15.5	5.3	Toilet goods.....	7.3	2.5
Hardware, nonutility furniture.....	12.1	4.1	Jewelry.....	6.7	2.3
Electric and gas appliances.....	11.0	3.8	Other ¹	36.0	12.3
Toys and sport goods.....	9.7	3.3	Total.....	292.2	100.0

¹ Includes nonutility footwear, wallpaper, cutlery, light fittings and electric lamps, clocks, watches, jewelry, musical instruments, phonograph records, photographic goods, pictures and greeting cards, arts and crafts, and toilet goods.

Source: British Treasury.

The exemption of firms with a turn-over of less than 500 pounds of taxable goods annually is designed to eliminate the administrative difficulties involved in collecting tax from small firms which normally keep poor records. Even with this exemption, however, the number of registered firms is considerable and totaled about 68,000 in 1950.

British tax administrators have indicated that failure on the part of registered firms to charge the proper rate of tax is fairly common. However, the number of such instances has been reduced to manageable limits by the publication of administrative rulings, usually after consultation with trade associations. Moreover, the administration of the tax has been facilitated by the readiness of most covered firms to accept official rulings without meticulous examination of their legal validity.

The British purchase tax covers articles which are not subject to excises in the United States. These include such categories as clothing, floor coverings, wallpaper, and garden furniture, which are classed as nonutility under established standards. (See table 10.) The British purchase tax is substantially higher than United States excess taxes. The British purchase tax on jewelry and fur coats, for example,

is equivalent to 60 percent of retail price, compared with 20 percent for the United States excise on these items. The British tax autos more than five times as heavily as the United States, and radios and sporting goods almost four times as heavily.

TABLE 10.—*British purchase tax rates compared with United States excise tax rates on similar articles*

ARTICLES SUBJECT TO BRITISH PURCHASE TAX BUT NOT TO UNITED STATES EXCISE TAX

Article	British purchase tax ¹	United States excise tax
Nonutility garments	33½ percent of wholesale price	No tax.
Floor coverings (except rugs)	do	Do.
Wallpaper	do	Do.
Nonessential drugs	do	Do.
Hardware	do	Do.
Domestic light fittings	do	Do.
Domestic cutlery	do	Do.
Garden furniture	66½ percent of wholesale price	Do.
Gas space heaters	do	Do.
Arts and crafts	do	Do.
Mirrors and cut glassware	100 percent of wholesale price	Do.

ARTICLES SUBJECT TO BRITISH PURCHASE TAX AND UNITED STATES EXCISE TAX

Electric-light bulbs	37 percent of manufacturer's price	20 percent of manufacturer's price.
Radios	do	10 percent of manufacturer's price.
Toys and sporting goods	do	Do.
Autos	66½ percent of manufacturer's price	7 percent of manufacturer's price.
Musical instruments	73 percent of manufacturer's price	10 percent of manufacturer's price.
Photographic apparatus	do	25 percent of manufacturer's price.
Photographic film	do	15 percent of manufacturer's price.
Electric space heaters	110 percent of manufacturer's price	10 percent of manufacturer's price.
Luggage and purses	40 to 60 percent of retail price	20 percent of retail price.
Fur coats	60 percent of retail price	Do.
Jewelry	do	Do.
Perfumes and cosmetics	do	Do.

¹ The British purchase tax is levied only at the wholesale level. For certain items, however, the rates of the purchase tax is estimated in terms of retail or manufacturers' price in order to make it comparable with the United States tax.

Source: Based on information supplied by British Treasury.



